



International Monetary and Financial Committee

Twenty-Fifth Meeting
April 21, 2012

**Statement by Margrethe Vestager
Minister for Economic Affairs and the Interior, Denmark**

On behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway,
Sweden

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Main messages

- Renewed uncertainty in financial markets and underlying economic and financial vulnerabilities clearly demonstrate that there is no room for fiscal or structural policy relaxation. Fiscal adjustment and structural reform plans must be implemented as agreed, particularly in Europe, and credible medium-term fiscal strategies are urgently needed in the US and Japan. Reforms should be pursued to limit the social costs of unemployment.
- We must agree on a prompt and substantial increase in the IMF's lending capacity at the Spring Meetings to enhance global confidence and strengthen prospects for recovery. Countries in the Nordic-Baltic Constituency have committed to contribute with bilateral loans of more than 30 billion USD, likely making the Nordic-Baltic Constituency among the top contributors to the increase in IMF resources.
- The role of the IMFC as a key forum for global economic and financial cooperation should be further enhanced, as agreed at our last meeting and we welcome recent initiatives to this end. *Global* representation in *global* economic and financial cooperation and decision making is of utmost importance. The IMF quota formula should be improved to better reflect the broad mandate of the IMF and the purpose of quotas. Members' relative positions in the world economy and their capacity to support the Fund's work are best captured by GDP measured at market exchange rates and by their economic and financial openness.
- We strongly support the strengthening of IMF surveillance to sharpen the focus on financial sector policies and financial stability, correct the existing bias towards exchange rates, and encompass economic policy cross-border spill-over effects. We support an Integrated Surveillance Decision to this end.

Global Economic and Financial Challenges

1. While risks to the global recovery remain substantial, financial market stress has been alleviated – at least for the time being – by comprehensive policy measures, including those of the ECB. This has created an important window of opportunity for further action to reduce downside risks. Addressing sovereign debt challenges and putting public finances back on a sustainable path must remain the top priority. The continued uncertainties in the financial markets and the underlying economic and financial vulnerabilities, in particular in advanced countries, clearly demonstrate that there is no room for complacency or relaxation of fiscal or structural policy adjustments. The IMF's involvement in some countries has been crucial in containing the crisis.
2. An important downside risk to the global outlook is the recent surge in oil prices, largely due to increasing global demand and potential supply disruptions. These price increases should not be offset through price distorting policies such as additional costly subsidies. Such policies impede the needed adjustment of energy demand to higher prices, which is needed also from a climate change perspective, and cause further price increases. Further, they contribute to sustained global imbalances and impose large fiscal burdens.
3. In most advanced countries, in particular in European countries facing market pressure, implementation of the agreed fiscal consolidation plans and structural reform commitments should continue as planned to ensure credibility and to pave the way for sustainable growth. Reforms and policies should be pursued to limit the social costs of unemployment, in particular by addressing structural or regulatory impediments to growth in labour markets and taxation systems. We agree with the IMF that the lack of credible medium-term fiscal adjustment plans in the US and Japan remains a cause for concern and should be addressed urgently. We encourage G20 members to implement the country-specific fiscal and structural policy commitments in the Cannes Action Plan in order to address the root causes of continued global imbalances. We also underline the need to continue on the path to foster free trade and fair competition in the global system.
4. While emerging market and developing countries with external surpluses should seek to expand domestic consumption, those facing overheating pressures should not make up for the falling demand from advanced countries by over-stimulating activity. The IMF should be vigilant of developments and possible adverse spill-over effects to the world economy stemming from these countries. In many emerging and developing economies, more efforts are needed to continue with structural reforms. The relatively strong growth performance in many low-income countries should mainly continue to be used to rebuild policy buffers. Furthermore, spending should be redirected to focus on areas such as health, education, and infrastructure to alleviate poverty and support vulnerable groups.
5. The work on improving financial regulation and oversight should remain high on the international agenda. Progress on implementing the internationally agreed reforms has been slow globally. In particular, timely and consistent implementation of bank capital and liquidity requirements (Basel III), is important. It is also essential to make further progress on frameworks for bank restructuring and resolution at the domestic and cross-border level to improve incentives for careful risk management.

IMF Resources

6. The IMF membership must stand ready to ensure the IMF's ability to fulfil its systemic role of preserving international economic and financial stability and should agree on an increase in its resources at the Spring Meetings. A substantial increase in the IMF's lending capacity would enhance global confidence and strengthen prospects for recovery. It is important that the IMF remains a quota based institution, which is reflected in the temporary nature of the proposed increase in IMF resources.
7. Countries in the Nordic-Baltic Constituency have committed to contribute with bilateral loans to the IMF's General Resources Account of more than 30 billion USD as part of the international effort to ensure the adequacy of the IMF's resources, likely making the Nordic-Baltic Constituency among the top contributors to the increase in IMF resources.
8. The IMF's resources must continue to be firmly safeguarded. High concentration of lending to closely inter-linked countries and regions accentuates the importance of this. The main tools to mitigate risks to the IMF are strong programme design with tailored and strict policy conditionality and lending access. These policies should continue to be applied rigorously and in an even-handed manner.
9. Finally, we stress the importance of a timely implementation of the doubling of IMF quotas agreed in 2010, which would significantly lower the ratio of borrowed resources to quotas.

IMF Surveillance

10. We strongly support the strengthening of IMF's surveillance. Effective, candid, transparent and even-handed surveillance as well as improved traction of policy advice are key elements in strengthening the international financial architecture and reducing the risk of future crises.
11. We fully support a prompt adoption of an Integrated Surveillance Decision to strengthen and clarify IMF's surveillance mandate. The decision should aim to adapt the IMF's formal surveillance framework to economic realities, to better integrate bilateral and multilateral surveillance activities, to sharpen the focus on financial sector policies and stability, to correct the existing formal surveillance bias towards exchange rates, and to ensure effective surveillance of economic policy spill-over effects across borders.
12. An integrated surveillance decision is an intermediate step to be followed in due course by an amendment of the Articles of Agreement, clearly and formally specifying the IMF's role in multilateral and financial sector surveillance and defining an explicit financial stability mandate. This would define and formally anchor the broadened scope of members' obligations vis-à-vis the IMF, taking into account potential spill-over effects of their economic and financial policies. The IMF has a unique global economic and financial perspective, and an appropriate division of responsibilities between the IMF and other international institutions should be ensured, based on their respective mandates.
13. We support the IMF's work on capital flows, in particular the ambition to develop a comprehensive and flexible institutional framework for the management of capital flows.
14. Strong engagement of ministers and governors is needed to improve traction of IMF policy advice. The IMFC should play a more important role in this regard, ensuring high-level

discussions on the IMF's key policy advice and members' adherence to past policy recommendations. We welcome the Consolidated Multilateral Surveillance Report as a recurring item on the IMFC's agenda. It is an important step towards increasing active engagement of ministers and governors.

IMF Quotas and Governance

15. We remain fully committed to further enhancing the role of the IMFC as a key forum for global economic and financial cooperation, as agreed by the IMFC in September 2011. This is necessary to ensure *global* representation in *global* economic and financial cooperation and decision making. We strongly support the initiatives undertaken by the Chairman and the Managing Director in this regard, and we urge all members to support and contribute actively to this work. In particular, we welcome the new organisational setup of the Spring Meetings and the recent initiatives to strengthen the IMFC Deputies' role in the preparation of key policy decisions. We support further collaboration between the IMFC and the G20.
16. We are well advanced in meeting our commitment to implement the 2010 Quota and Governance Reform by the agreed deadline. In our constituency, countries representing roughly 90 percent of our total voting power have accepted the Board Reform Amendment, and countries representing roughly 95 percent of our total quotas have consented to the proposed quota increase. We call on other members to also ratify the reforms.
17. We look forward to the review of the quota formula. The formula should be improved to better reflect the broad mandate of the Fund, as well as the multiple purposes of quotas. Members' relative positions in the world economy and their capacity to support the Fund's work are best captured by GDP measured at market exchange rates and by their economic and financial openness. To protect the quota shares of the smallest members, many of which are emerging markets and developing countries, the degree of compression should be preserved or even increased.
18. The legitimacy of the quota formula review will depend on the process leading to the final agreement. In the interest of good global governance, we therefore call for a transparent and inclusive process that is fully anchored in the Executive Board and the IMFC.

The IMF's support for Low-Income Countries

19. We welcome the strengthening of the IMF's ability to support low-income countries as reflected by the IMF's decision to use a portion of the windfall gold sale profits to facilitate new subsidy contributions to the Poverty Reduction and Growth Trust (PRGT). The Nordic-Baltic countries continue to support these facilities, including through substantial loan and subsidy contributions.